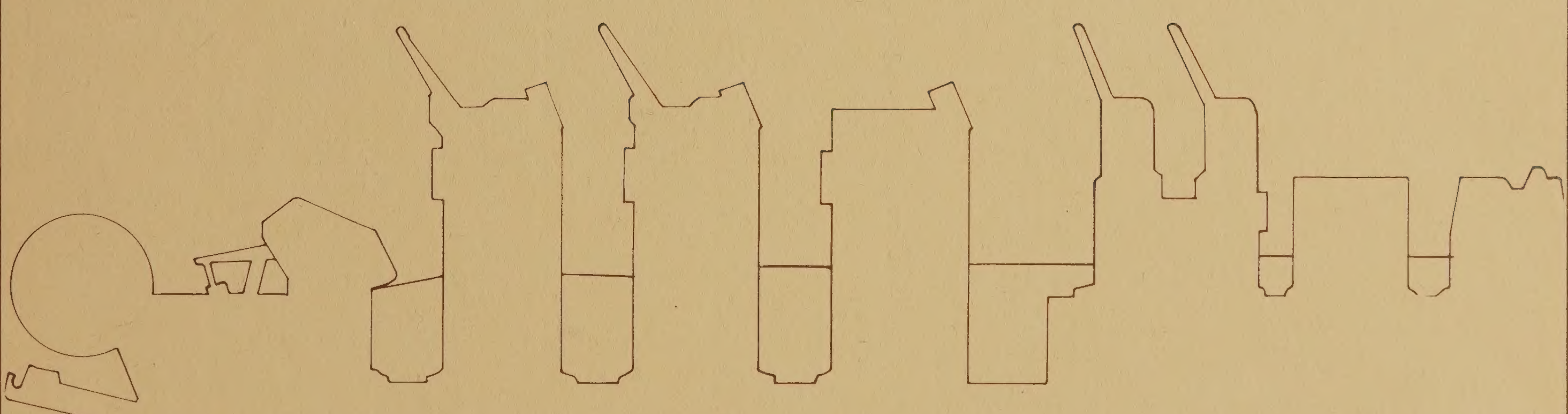

KEYSTONE BUSINESS FORMS LTD.

5th ANNUAL REPORT 1972

KEYSTONE BUSINESS FORMS LTD.
Head Office: 1230 Adanac Street, Vancouver 6, B.C.

directors

Gordon E. Lennox	Vancouver, B.C.
M. Joseph Kelly	Vancouver, B.C.
Reginald P. Gillingham	West Vancouver, B.C.
Charles Hardy Foster	West Vancouver, B.C.
Stanley O. Davies	West Vancouver, B.C.
Evans E. Wasson, Q.C.	Vancouver, B.C.

Gordon E. Lennox	*President*
M. Joseph Kelly	*Vice President & Treasurer*
Charles Hardy Foster	*Secretary*

Transfer Agent & Registrar
Canada Permanent Trust Company, Vancouver, B.C.

Auditors
Culver & Co., Vancouver, B.C.

the president's report

We are pleased to report continued sales growth, attaining a total of $1,677,129 at fiscal year end – an increase of 11% over 1971. Earnings, however, did not keep pace, slipping to .34¢ per share from .36¢ recorded the year previous.

Reassuring is the absorption of Selling, General and Administrative expenses. These costs decreased from 18.3% to 17.9% of Sales – equivalent to $6700, notwithstanding depreciation increase of $3500 resulting from necessary leasehold improvements as well as $1400 additional U.I.C. contributions required by Federal Government compulsory extension of benefits to include all employees not formerly covered.

The answer to the decrease in profitability lies entirely in cost of Sales which as a percentage of Sales was 2.6% higher than 1971. It is comprised of 1.4% Factory Payroll and Fringe Benefits, 1.0% Materials and .2 Depreciation.

During the year two new Union Contracts were negotiated while the only remaining non-union department at the end of 1971 was organized and certified. The resultant increase in Factory Payroll and Fringe Benefits amounted to $23,400 with no increase in total employed. The 1.0% increase in Material Costs accounted for $16,770 and Depreciation increase $3,350.

The higher depreciation is attributable to two new machines acquired since the last semi-annual report. Both acquisitions are now having a significant effect on production. The machine operators and management are most pleased with the results.

Despite increased operating costs we believe we might have exceeded last year's earnings had not our major marketing area been hit by long drawn-out strikes and closures involving the two major industries in B.C. – Forest and Construction. The sales volume which completely disappeared could well have made the difference.

At this point it is necessary to advise our shareholders than an Indictment dated the 17th day of May 1972 issued out of the Supreme Court of Ontario was served upon the Company. Under the terms of the Indictment the Company is charged along with a number of others in the same business, of conspiring to prevent or lessen, unduly, competition in the production etc. of articles or commodities that may be the subject of Trade or Commerce, to wit Business Forms, contrary to the Combines Investigation Act. The Company is resolved to defend this charge to the best of its ability and is advised that it has a good defence.

As to fiscal 1973 we are optimistic. We are fortunate in the fine group of people throughout the entire organization; factory, sales and office. Your plant, capable of producing continuous forms for the computer "print-out" as well as all styles and sizes of one-time carbon snapout forms, is the most comprehensive in the B.C.-Alberta area. Unless we are again plagued by major work stoppages in B.C., we see no reason why profitability should not improve in 1973.

Gordon E. Lennox, President

February 19, 1973.

assets

BALANCE SHEET
30 November 1972

(With comparative amounts at 30 November 1971)

	1972	1971
Current Assets:		
Cash	$ 27,375	$ 18,232
Accounts receivable, less allowance	294,732	273,790
Inventories of raw materials and work in process, at lower of cost or net realizable value	158,987	166,419
	481,094	458,441
Fixed Assets – machinery, equipment and vehicles, at cost	579,698	502,496
Less accumulated depreciation (Note 2)	416,138	368,060
	163,560	134,436
	$644,654	$592,877

Approved on behalf of the Board:

"G.E. LENNOX" Director

"C.H. FOSTER" Director

liabilities

		1972	1971
Current Liabilities:			
Bank loan, secured		$ 15,000	$ –
Accounts payable and accrued liabilities		108,015	132,107
Allowance for taxes on income, less instalments paid		29,376	32,991
		152,391	165,098
Capital and Surplus:			
Share Capital:			
Authorized:			
100,000 redeemable non-cumulative preference shares, par value $1.00 each	$100,000		
1,000,000 common shares of no par value	–		
	$100,000		
Issued – 333,333 common shares		10,000	10,000
Earned Surplus, per attached statement		482,263	417,779
		492,263	427,779
		$644,654	$592,877

Statement of Earned Surplus
For the Year ended 30 November 1972

(With comparative amounts for the year ended 30 November 1971)

	1972	1971
Amount at beginning of year	$417,779	$363,521
Add net profit for the year	114,484	120,924
	532,263	484,445
Deduct dividends – fifteen cents per share (1971 – twenty cents per share)	50,000	66,666
Amount at end of year	$482,263	$417,779

Statement of Profit and Loss
For the Year ended 30 November 1972
(With comparative amounts for the year ended 30 November 1971)

	1972	1971
Sales	$1,677,129	$1,486,851
Cost of Sales	1,167,567	996,149
Gross Profit	509,562	490,702
Selling Expenses	205,559	185,412
General and Administrative Expenses	93,920	86,419
	299,479	271,831
Operating Profit	210,083	218,871
Other Income	2,401	2,053
Net Profit before Taxes on Income	212,484	220,924
Income Taxes (Note 3)	98,000	100,000
Net Profit	$ 114,484	$ 120,924
Earnings per share	$ .34	$ .36

Statement of Source and Application of Funds
For the Year ended 30 November 1972
(With comparative amounts for the year ended 30 November 1971)

	1972	1971
Source of Funds:		
Operations (including non-cash items added back:		
1972 – $50,199; 1971 – $34,317)	$164,683	$155,241
Application of Funds:		
Acquisition of fixed assets	79,323	43,800
Dividends	50,000	66,666
	129,323	110,466
Increase in working capital	35,360	44,775
Working capital at beginning of year	293,343	248,568
Working capital at end of year	$328,703	$293,343

notes to financial statements

1. **Place of Incorporation**

   Keystone Business Forms Limited is incorporated under the laws of the Province of British Columbia.

2. **Depreciation**

   As in preceding years depreciation was computed on a straight line basis applied to original cost at rates varying from 10% on office equipment to 33 1/3% on leasehold improvements and charged to operations as follows:

	1972	1971
Cost of Sales	$ 39,284	$ 31,971
Selling Expenses	2,189	2,095
General and Administrative Expenses	8,726	5,251
Total	$ 50,199	$ 39,317

3. **Deferred Income Taxes**

   Income Taxes payable in 1971 exceeded the provision in the accounts because charges for depreciation were greater than claimed for tax purposes. This excess was charged against prior years' provisions for deferred income taxes. The following table shows the effect on the statement of profit and loss:

	1972	1971
Taxes actually payable on current operations	$ 98,000	$105,000
Deduct charges to deferred income taxes	–	5,000
Taxes Charged to Operations	$ 98,000	$100,000

4. **Remuneration of Directors and Senior Officers**

   Aggregate direct remuneration paid to directors and senior officers of the company totalled $113,301 in 1972 and $110,710 in 1971.

CULVER & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
Keystone Business Forms Limited

We have examined the balance sheet of Keystone Business Forms Limited as at 30 November 1972 and the related statements of profit and loss, surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company at 30 November 1972 and the results of its operations and the source and application of its funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

"CULVER & CO."
Chartered Accountants

Vancouver, B.C.
15 January 1973

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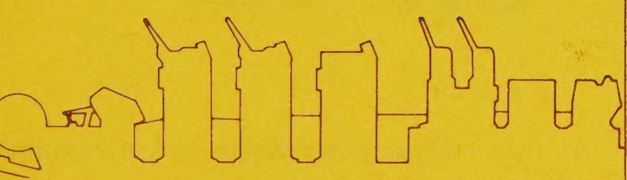
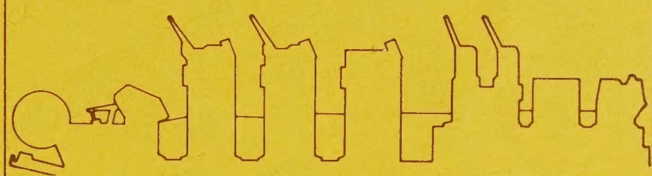


KEYSTONE BUSINESS FORMS LTD.



KEYSTONE BUSINESS FORMS LTD.

INTERIM REPORT
TO THE SHAREHOLDERS

For Six month's ended May 31, 1972

TO THE SHAREHOLDERS:

Your Company's performance in the six month period ending May 31, 1972 is encouraging in that it showed a continued improvement in sales. Sales increased by 16.5% over the performance in the first six months of 1971. Earnings per share showed an increase from 16¢ to 17¢ up only 6%.

While management is concerned with increasing sales, its energies are being strongly directed towards control of costs in order to maintain a good rate of net profit.

During this first half of the 1972 year, the cost of sales increased 20% over the similar period last year. Some of this difference is represented by increased cost of materials which is unavoidable despite all efforts to purchase as economically as possible. Another area of cost is represented by increases in labor rates negotiated in our labor contracts. Finally, selling expenses have increased from the previous period because of efforts to open new marketing areas and the further exploitation of our present areas.

Management has taken the following steps to rectify these matters:

1. Efforts to obtain the best possible materials at the best prices are being intensified. In close connection with this, maintenance of control of waste is being carefully reviewed.
2. Further investment in more sophisticated equipment, particularly in the preparatory and finishing departments, will be completed by mid-July 1972. This investment of some $80,000. is expected to increase production per mechanical employee.
3. Much of the increase in sales costs during the first six months of 1972 is expected to bear fruit in further sales increases in the last half of the year.
4. Your company is encouraged that despite the elimination of the decreased tax rate on the first $35,000. of profit we have been able to maintain our earnings per share. It should be noted that while our effective income tax rate for the first six months of 1971 was 44.7%, the effective tax rate for the first period of 1972 is 48.1%. In addition, other costs due to Federal Legislation regarding unemployment insurance have added approximately $1200. in costs to the company. Management realizes that these tax factors will be continuing problems. However, they are facts to consider in comparing earnings per share in the present period with previous earnings per share.

Finally your company is dependent on a good economic climate particularly in the Provinces of British Columbia and Alberta. Lastest indications seem to be that labor-management relations in British Columbia may be resolved much more expeditiously than in 1970. Given reasonable conditions your company is confident of maintaining its position in the market and in sharing in an expected economic growth.

G.E. LENNOX
President

July 19, 1972.

Van.

STATEMENT OF PROFIT AND LOSS FOR THE SIX MONTHS ENDED 31 MAY 1972

(with comparative amounts for the six months ended 31 May 1971)

	31 May 1972	31 May 1971
Sales	$ 852,411	$ 732,006
Cost of Sales	605,093	501,902
Gross Profit	247,318	230,104
Selling Expenses	102,398	88,144
General and Administrative Expenses	43,268	49,373
Operating Profit	101,652	92,587
Other Income	6,608	3,601
Net Profit before Taxes on Income	108,260	96,188
Provision for Income Taxes	52,000	43,000
Net Profit	$ 56,260	$ 53,188
Earnings per Share	$ .17	$ .16

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds:		
Operations (Including Non-Cash Items added back: May 1972 – $28,410; May 1971 – $18,550)	$ 84,670	$ 71,738
Application of Funds:		
Fixed Assets	60,183	37,017
Dividends	33,333	33,333
	93,516	70,350
Increase (Decrease) in Working Capital	(8,846)	1,388
Working Capital at Beginning of Period	293,343	248,568
Working Capital at End of Period	$ 284,497	$ 249,956

THE ABOVE STATEMENTS ARE UNAUDITED AND SUBJECT TO YEAR-END ADJUSTMENTS.